

Sharekhan

by BNP PARIBAS

Debt Funds & Picks
August 2017

Index

- Macro Wrap
- Debt Market Wrap
- Debt Market View
- Fund Recommendations
- Selection Criteria

Macro wrap: India Inflation



- India's consumer prices increased 2.36 percent year-on-year in July 2017, beating market expectations of 1.87 percent and following a 1.54 percent gain in the previous month. Cost of housing, energy and clothing rose further and food prices fell at a softer pace
- Prices grew at a faster pace for: Fuel and light (4.86 percent from 4.54 percent), clothing and footwear (4.22 percent from 4.17 percent) and housing (4.98 percent from 4.7 percent).
- Cost of food fell at a slower 0.29 percent after declining by 2.12 percent in June. While prices of vegetables fell less (-3.57 from -16.53 percent in June) and fruits inflation was higher (2.83 percent from 1.98 percent), cost of pulses declined further (-24.75 percent from -21.92 percent).

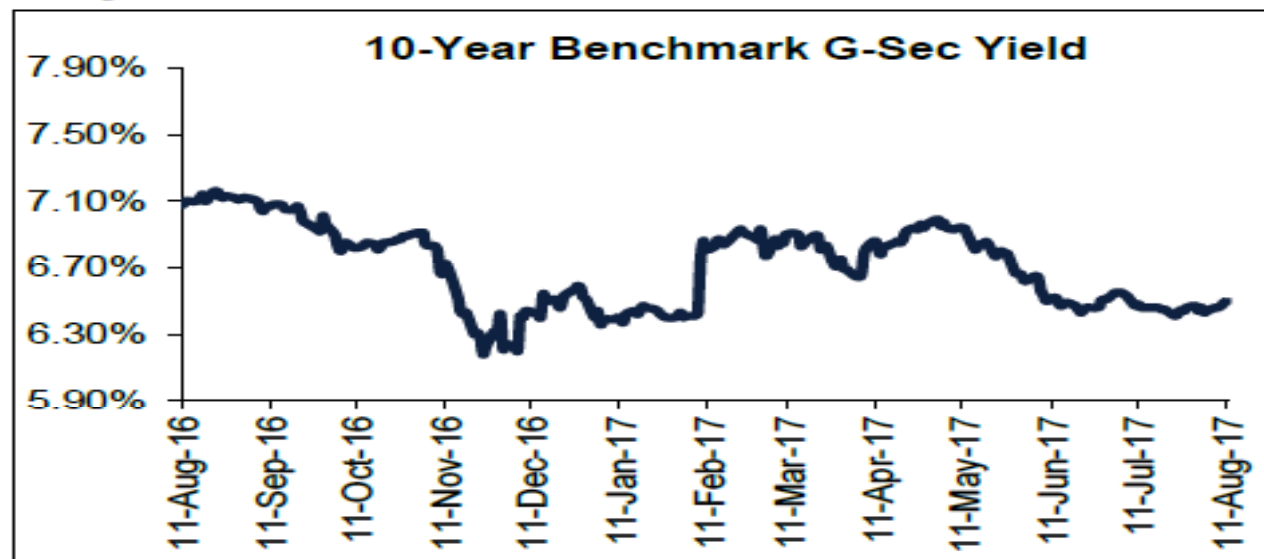
Macro wrap: Industrial Production



- India's industrial production decreased 0.1 percent year-on-year in June 2017, following an upwardly revised 2.8 percent rise in the previous month and missing market expectations of a 0.6 percent gain
- It was the first fall in industrial production since June 2013, as manufacturing output declined 0.4 percent after rising 2.6 percent in May
- Meanwhile, electricity production grew 2.1 percent (from 8.3 percent in May) and mining output increased 0.4 percent (from 0.2 percent in May).

10 year Bond movement

10-year benchmark G-Sec movement



Source: CRISIL Fixed Income Database

Indian debt market indicators

Indicators	Aug 11	Previous Week	Trend
Call Rate	5.85%	5.80%	↑
3 M CP	6.47%	6.55%	↓
1 Yr CP	7.05%	7.05%	↔
3 M CD	6.16%	6.16%	↔
1 Yr CD	6.45%	6.50%	↓
3 Yr AAA	6.91%	6.87%	↑
5 Yr AAA	7.08%	7.03%	↑
1 Yr G-Sec	6.33%	6.20%	↑
3 Yr G-Sec	6.36%	6.35%	↑
5 Yr G-Sec	6.49%	6.43%	↑
10 Yr G-Sec	6.50%	6.44%	↑
Forex Reserves	\$ 393.45 bn (Aug 4)	\$ 392.87 bn (July 28)	↑

Source: CRISIL Fixed Income Database, RBI

Corporate bond spreads over G-Sec

Spreads		AAA	AA+	AA	AA-	A+
Aug 9 th 2017	3 Yr	0.39%	0.69%	0.96%	1.28%	1.57%
	5 Yr	0.47%	0.83%	1.12%	1.45%	1.74%
	10 Yr	0.69%	1.03%	1.51%	1.91%	2.25%
Previous Week	3 Yr	0.40%	0.70%	0.97%	1.29%	1.58%
	5 Yr	0.49%	0.85%	1.14%	1.47%	1.76%
	10 Yr	0.69%	1.03%	1.51%	1.91%	2.25%

Source: CRISIL Fixed Income Database

Currencies vs the rupee

Currency	Aug 11	Week ago	3 months ago	1 year ago
USD	64.13	63.58	64.38	66.84
GBP	83.27	83.71	83.42	86.95
Euro	75.46	75.66	70.15	74.65
100 Yen	58.76	57.85	56.48	65.91

Source: RBI, Financial websites

Debt Market Wrap

Liquidity – remains comfortable; call rate stable

- The interbank call money rate settled at 5.85% on August 11 as against 6.05% on July 7
- Through the auctions, the central bank drained away Rs 1,65,000 crore and kept the call money rate from dipping too low
- The central bank also conducted two term repo auctions of 14-day and 13- day durations for a total notified Rs 41,500 crore
- Brief tightness in liquidity was on account of outflows related to indirect tax payments and payments for gilts purchased in the previous week's bond sale

Bond Yields: yields on 10 year bond stable

- In line with consensus expectations, RBI lowered the key policy rate by 25 bps to 6.00% at its Third Bi-monthly Monetary Policy Statement, 2017-18, even as it maintained a 'neutral' stance
- The yield of the 10-year benchmark 6.79% 2027 paper settled at 6.50% on August 11 as against 6.53% on July 7
- Sentiment remained subdued on concerns that the RBI may conduct further open market bond purchases in the coming weeks, given surplus liquidity in the banking system
- Ongoing geopolitical tensions between US and North Korea as well as the continued standoff between India and China also dented sentiments

Debt Market Outlook

View: Yields expected to be Range bound

- India's consumer prices increased 2.36 percent year-on-year in July 2017, beating market expectations of 1.87 percent
- Repo rate cut which happened against an underlying 'neutral monetary policy stance' reinstates the belief that future course of policy actions would be heavily data dependent
- Bond prices are expected to be range bound in the near term

Strategy: Prefer Short term Funds & Corporate bond Funds

- We would suggest a mix of 80:20 allocation mix between short term/corporate Fund (80%) and Gilt/long term Fund (20%; play through dynamic bond fund)
- Long dated Fixed Maturity Plans could also be considered as an alternative for a part of the allocation in the Short Term Fund category

Recommendations & Performance- Corporate Bond Fund

Scheme Name	Exit Load	Simple Annualised (%)					CAGR(%)		
		14D	1M	3M	6M	1Yr	2Yr	3Yr	5Yr
Corporate Bond									
Birla Sun Life Medium Term Plan - Reg - Growth	Less than 1 Year Exit Load is 1%	7.4	9.0	12.2	11.0	9.2	9.9	10.4	10.4
UTI Income Opportunities Fund - Growth	Less than 1 Year Exit Load is 1%	8.5	8.2	8.9	8.0	8.9	9.2	9.7	--
DSP BlackRock Income Opportunities Fund - Reg - Growth	Less than 1 Year Exit Load is 1%	8.3	9.5	10.0	8.4	8.7	9.5	10.0	9.5
Kotak Income Opportunities Fund - Reg - Growth	Less than 1 Year Exit Load is 1%	8.0	9.0	8.7	8.0	8.6	9.4	9.7	9.3
Short Term									
Birla Sun Life Short Term Fund - Reg - Growth	Exit Load is Nil	9.1	9.7	10.5	8.7	8.6	9.2	9.6	9.5
BNP Paribas Short Term Income Fund - Growth	Exit Load is Nil	7.3	7.8	9.4	7.7	7.8	8.3	8.7	8.7
Reliance Medium Term Fund - Growth	Exit Load is Nil	7.1	8.0	8.5	7.5	7.8	8.4	8.7	8.7
Indices									
Crisil Short Term Bond Fund Index		6.9	7.6	9.6	8.5	8.2	8.8	9.1	9.1

Performance as on 14th August,2017

Recommendations & Performance- Gilt Funds (play thru dynamic bond funds)

Scheme Name	Exit Load	Simple Annualised (%)				CAGR(%)		
		1M	3M	6M	1Yr	2Yr	3Yr	5Yr
Gilt Fund (Dynamic Bond)								
UTI Dynamic Bond Fund - Reg - Growth	Exit Load is Nil	7.7	13.6	11.4	11.6	11.3	11.2	10.7
SBI Dynamic Bond Fund - Growth	Less than 1 Month Exit Load 0.25%	5.2	13.9	10.7	10.7	11.1	11.4	9.4
IDFC Dynamic Bond Fund - Reg - Growth	Exit Load is Nil	7.7	11.9	10.6	10.5	10.2	11.4	9.9
Indices								
Crisil Composite Bond Fund Index		9.0	14.4	11.1	9.3	10.5	11.1	9.6

Performance as on 14th August,2017

Fund picks: Across categories

Ultra Short Term Funds

Scheme Name	Exit Load	Simple Annualised (%)						CAGR(%)		
		7D	14D	1M	3M	6M	1Yr	2Yr	3Yr	5Yr
Ultra Short Term										
ICICI Prudential Flexible Income Plan - Reg - Growth	Exit Load is Nil	5.0	7.4	8.1	8.6	7.9	8.2	8.6	8.8	9.1
Birla Sun Life Savings Fund - Reg - Growth	Exit Load is Nil	6.2	8.0	8.6	9.0	8.2	8.2	8.7	8.9	9.2
IDFC Ultra Short Term Fund - Reg - Growth	Exit Load is Nil	5.7	7.7	8.0	8.1	7.9	7.9	8.3	8.6	8.9
Index										
Crisil Liquid Fund Index		6.6	6.6	6.7	6.7	6.7	6.8	7.3	7.8	8.2

Liquid Funds

Scheme Name	Exit Load	Simple Annualised (%)						CAGR(%)		
		7D	14D	1M	3M	6M	1Yr	2Yr	3Yr	5Yr
Liquid Fund										
Axis Liquid Fund - Growth	Exit Load is Nil	6.5	6.5	6.5	6.6	6.7	6.8	7.4	7.9	8.4
BNP Paribas Overnight Fund - Growth	Exit Load is Nil	6.3	6.3	6.3	6.4	6.6	6.8	7.3	7.8	8.3
HDFC Liquid Fund - Growth	Exit Load is Nil	6.2	6.2	6.2	6.4	6.5	6.7	7.3	7.8	8.4
Index										
Crisil Liquid Fund Index		6.6	6.6	6.7	6.7	6.7	6.8	7.3	7.8	8.2

Performance as on 14th August,2017

Annexure: Criteria for scheme selection

- Selection among the top-rated AMC's with a proven track record in debt
- Selection out of this lot, unless a strategy is compelling based on interaction with an AMC outside this universe
- Track record of at least two years of existence for the fund, though there could be some exceptions at times
- Threshold AUM of at least Rs.200 crore and above, though at times strategy would merit consideration as an exception
- Superior risk-adjusted returns

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